ELKS STORES LIMITED
NINETEEN SEVENTY-FIVE
ANNUAL REPORT

THE ELKS GROUP:

Dapper Dan Men's Wear Inc., Elks Pant Place, Elks Stores, Hampton's, Harry-No-Name, Joe Feller Limited, Taylor's Fashion Centres

SAMUEL ELKIND
Chairman of the Board
Founder of Elks Stores Limited

DIRECTORS

SAMUEL ELKIND
Chairman of the Board
Elks Stores Limited

*MANUEL ELKIND
President and Chief Executive Officer
Elks Stores Limited

*LEWIS B. BAKER, Q.C.
Gordon, Hall, Baker and Goodman

JOSEPH FELLER
Fashion Consultant to the Company

*GEORGE S. MANN
President
Unicorp Financial Inc.
Chairman of the Executive Committee,
Unity Bank

PHINEAS SCHWARTZ
Goodman and Goodman

*Audit Committee

OFFICERS

SAMUEL ELKIND
Chairman of the Board

MANUEL ELKIND
President and Chief Executive Officer

ARCHIE F. SWEETT
Vice-President and General Manager

JOSEPH D. CLARE
General Merchandising Manager

J. FREDRIC DUNCAN
Secretary

FRANK S. KISLUK, B.A., C.A.
Controller

HEAD OFFICE

1198B Caledonia Road, Toronto, Ontario
M6A 2W5

TRANSFER AGENTS

United Trust Company

BANKERS

Bank of Montreal

AUDITORS

Laventhol & Horwath

LEGAL COUNSEL

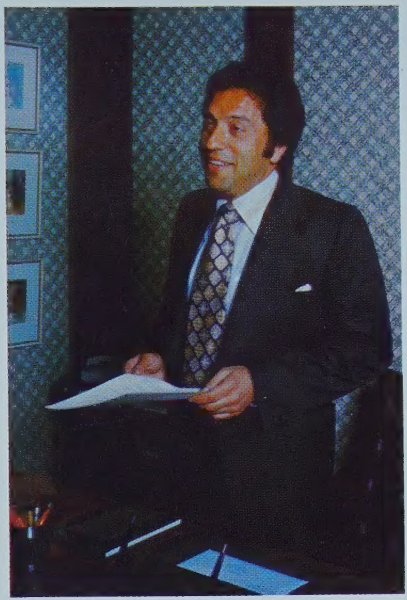
Goodman and Goodman

SHARES LISTED

Toronto Stock Exchange, Toronto

FINANCIAL HIGHLIGHTS

	1975	1974
Sales	**$21,682,000**	$17,646,000
Income Before Taxes	**666,000**	1,224,000
Net Income	**301,000**	598,000
Cash Flow	**1,022,000**	1,111,000
Working Capital	**990,000**	1,252,000
Share Equity	**2,934,000**	2,633,000
Net Income Per Share $	**0.41**	0.81



President's Message

To Our Shareholders:

This report reviews our company's progress throughout the twelve months ended January 25, 1975. It can be seen that while sales continued to grow at an excellent pace, rising by 23 per cent to $21.7 million from $17.6 million, net income, in fact suffered a decline during the period.

Review

There are several reasons which account for improved sales not being reflected in improved earnings, and to further your understanding, I should enlarge upon these.

First, however, let me remind you that over the past two years, our posture has been one of emphasizing expansion by way of new store openings and acquisitions. In this period, the number of stores in the Elks Group of companies increased to 66 from 41 locations at the end of the 1973 fiscal year — a growth of 61 per cent — enabling an increase in sales to $21.7 million from $11.9 million, or, 82 per cent growth in only two years.

The primary objective of our recent expansion plans was to capture strategic locations in prime shopping centres having long-term prospects of increasing consumer traffic. In accordance with this objective, the major efforts of management were directed to seeking out, negotiating, and securing new sites offering this kind of potential. The program was an immense success, and our portfolio of leases is now comprised of many highly desirable locations negotiated on long-term contracts with exceptionally attractive rental arrangements.

Operating Costs

While we feel secure in the knowledge that the excellence of our lease locations provides irreplaceable opportunities to profit in the future, the costs of acquiring the locations and of designing, fixturing, merchandising, inventorying and staffing them has had a major impact on our profitability at this stage. It should be noted that square footage acquired over the past 24 months is a historically high percentage of our company's total square footage of retail selling space. This footage has not as yet had time to achieve its desired level of sales in order to contribute to profits, despite the fact it has and continues to incur costs.

In the year just ended, additional costs were incurred as the Elks Group of companies expanded into markets east of Ontario, opening three new locations in Quebec and one in Moncton, New Brunswick. Subsequent to year-end, two additional locations were opened in Quebec. It is early yet to anticipate a maximum return on our investment in these markets but there is every indication that Quebec and the east coast provinces offer an exciting long range potential for the Elks merchandising concept.

In Ontario, we opened five new locations and closed two during the fiscal period. Subsequently, we have added four new stores. Close attention is being paid to

maintaining the high standards we have set for our outlets, and older stores are continually being replaced with more attractive and efficient locations.

Depreciation and interest costs rose considerably as the result of our decision to increase our investment in the acquisition of strategic long-term store locations. In addition to the costs inherent in expanding as quickly as we have, the economic climate in the last twelve months presented unusual difficulties for most industries in Canada. Financing costs were high during the period and prices for almost every commodity rose in reflection of the unparallelled inflation that gripped free world economies. Another dampening effect on profits was the imposition by the Federal Government of a 10 per cent surcharge on income.

For retailers, the final half of the year was particularly difficult. As a consequence of obvious economic uncertainty, there was a notable reduction in the consumer's propensity to spend, coincidental with the very point in the selling year at which inventories are high in anticipation of traditionally heavy winter and Christmas sales. These sales did not materialize and as a result, beginning in October, the retail industry was faced with severe competitive pricing which placed an unusual pressure on profit margins.

Future

No major plans for further expansion are contemplated by management in 1975. We will, however, continue to be alert to unusual opportunities as we have in the past. We strongly believe that the costs we have already borne in obtaining locations will be increasingly justified as the costs of replacing them will continue to escalate in the future. In spite of the large increases in sales recorded in the year, sales are much below levels we eventually expect from existing units. Our portfolio of attractive leases is an unlisted asset in our future pursuit of sales and profits.

Consistent with management efforts to improve efficiencies, the company will be closing a number of units which are not making an appropriate contribution to profits. As of this date, two stores have already been closed in the current year.

Recently introduced systems are helping management to react quickly to changing market conditions by way of up-to-date inventory and merchandising controls. Major emphasis on the part of senior management is currently being redirected from expansion to consolidation. Even greater emphasis is being placed on merchandising techniques to further the Elks concept of providing service, value and advanced styling to the increasingly clothes-conscious Canadian male.

We have the corporate structure, size, financial resources, geographic locations and marketing concept to greatly expand sales on our existing base. Prospects for a gradual improvement in business conditions are excellent and we are confident that profits in the last half of the year and the years ahead, will confirm the steps we have taken over the past two years as farsighted and imaginative.

Acknowledgement

I am pleased to announce the following new additions and appointments to our management team. Mr. Roy Haber has assumed the responsibilities of General Manager of the Joe Feller Divisions in Ottawa, Ontario and Hull, Quebec. Gordon Johnston has joined us as General Manager of our Hampton Division and 'The Pant Place' Division will now be headed by Reuben Fergenbaum who has joined us as its Operations Manager. From within the organization we have appointed Bob Shapiro, General Manager of the Dapper Dan Division in Montreal. All four men have a record of success in our industry and we have confidence in their future efforts.

On behalf of the Directors, I extend sincere appreciation to the men and women among our management and staff, who have worked unstintingly for the company through this challenging period.

Respectfully submitted on behalf of the Board of Directors
June 18, 1975

Manuel Elkind
President and Chief Executive Officer

ELKS STORES LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
JANUARY 25, 1975

ASSETS	1975	1974
Current:		
Cash	$ 258,025	$ 386,632
Accounts receivable	1,310,995	1,109,747
Inventory	6,740,297	6,159,440
Prepaid expenses and sundry assets	255,305	179,610
Marketable securities, at cost	—	180,000
	8,564,622	8,015,429
Equipment and leasehold improvements (Note 2)	3,345,438	2,548,820
Other:		
Deferred costs, less amounts amortized (Note 3)	541,642	422,985
Sundry	50,162	32,162
	591,804	455,147
	$12,501,864	**$11,019,396**
LIABILITIES		
Current:		
Bank indebtedness (Note 4)	$ 1,600,000	$ 1,600,000
Accounts payable and accrued liabilities	5,277,939	4,199,999
Income taxes	178,129	191,055
Current portion of long-term debt	519,148	766,000
	7,575,216	6,757,054
Long-term debt (Note 5)	1,692,169	1,408,416
Deferred income taxes	300,805	221,310
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	1,324,960	1,324,540
Retained earnings	1,608,714	1,308,076
	2,933,674	2,632,616
	$12,501,864	**$11,019,396**

On behalf of the Board:

(Director)

(Director)

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
Elks Stores Limited

We have examined the consolidated balance sheet of Elks Stores Limited and its subsidiaries as at January 25, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 25, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL & HORWATH
Chartered Accountants
Toronto, Ontario,
June 6, 1975.

ELKS STORES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED JANUARY 25, 1975

	1975	1974
Sales	**$21,682,404**	**$17,646,533**
Expenses:		
Cost of sales and operating expenses	19,831,415	15,776,983
Depreciation and amortization	623,561	343,306
Interest on long-term debt	239,952	111,375
Other interest	321,460	190,938
	21,016,388	16,422,602
Income before taxes and extraordinary item	666,016	1,223,931
Income taxes	347,000	625,740
Income before extraordinary item	319,016	598,191
Extraordinary item (Note 9)	18,378	—
Net income	300,638	598,191
Retained earnings at beginning of year	1,308,076	1,136,982
	1,608,714	1,735,173
Net excess of cost of shares of subsidiary over net book value at date of acquisition	—	427,097
Retained earnings at end of year	**$ 1,608,714**	**$ 1,308,076**
Earnings per share (Note 10):		
Income before extraordinary item	**43¢**	**81¢**
Net income	**41¢**	**81¢**

See accompanying notes

ELKS STORES LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED JANUARY 25, 1975

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	1975	1974
Financial resources were provided by:		
Income before extraordinary item (Note 11)	$ 1,022,072	$ 1,111,497
Issue of common shares	420	2,190
	1,022,492	1,113,687
Financial resources were used for:		
Additions to fixed assets	1,235,891	1,489,576
Less increase in long-term bank loans	1,006,853	1,232,333
	229,038	257,243
Deferred costs	302,945	411,572
Reduction in long-term debt	723,100	295,085
Loss on disposal of marketable securities	18,378	—
Excess of cost of acquisition over net book value	—	427,097
Purchase of long-term investments	18,000	32,162
	1,291,461	1,423,159
Decrease in working capital (Note 12)	268,969	309,472
Working capital, beginning of year	1,258,375	1,567,847
Working capital end of year	**$ 989,406**	**$ 1,258,375**

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 25, 1975

1. Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

Inventory:

Inventory is valued at the lower of cost and net realizable value determined by the retail method.

Equipment and leasehold improvements:

These assets are stated at cost. Depreciation is being provided on equipment on a straight-line method over a seven-year period. Leasehold improvements are being amortized over the terms of the leases and initial options to a maximum of 10 years.

2. Equipment and leasehold improvements:

	1975	1974
Equipment	$2,334,858	$1,878,110
Leasehold improvements	2,849,258	2,108,681
	5,184,116	3,986,791
Accumulated depreciation and amortization	1,838,678	1,437,971
	$3,345,438	**$2,548,820**

3. Deferred costs:

These costs relate primarily to pre-opening expenditures of new stores and are amortized over 36 months commencing with the month after the date of opening. Deferred costs amortized during 1975 and included in the consolidated statement of income and retained earnings amount to $184,288 (1974 — $72,615).

4. Bank indebtedness:

Bank indebtedness and the bank loan shown in Note 5 are secured by a floating charge on all the company's assets.

5. Long-term debt:

	Total	Current Portion	Long-Term
Bank loans, 2% above prime rate (Note 4)	$1,790,149	$469,148	$1,321,001
Promissory note, 7%	100,000	—	100,000
Promissory note, 7%	321,168	50,000	271,168
	$2,211,317	**$519,148**	**$1,692,169**

Principal payments required in each of the next four fiscal years are as follows:

1976	$ 519,148
1977	518,000
1978	789,000
1979	385,169
	$2,211,317

Although the bank loans of $1,790,149 are evidenced by demand promissory notes, arrangements have been made with the bank to retire the principal amount of the loan at the rate of approximately $39,000 per month.

6. Capital stock:

Authorized:
2,000,000 Common shares, without par value

Issued:	Number of Shares Issued	Amount
Balance, January 26, 1974	740,292	$1,324,540
Shares issued during year on exercise of stock options	56	420
Balance, January 25, 1975	**740,348**	**$1,324,960**

Employee stock option plan:
The company has set aside 36,652 common shares for its employee stock option plan. As at January 25, 1975 the company has outstanding options under this plan on 24,886 shares exercisable at prices ranging from $7.50 to $13.50 over the next ten years.

7. Remuneration of directors and senior officers:

The aggregate direct remuneration for the year paid or payable to directors and senior officers amounts to $186,500.

8. Long-term lease obligations:

All of the company's store locations are held on leases entered into for periods from five to twenty-five years. Most of these leases are for minimum rentals and contain percentage-of-sales clauses. The minimum annual rentals payable under all such leases currently in force totals $1,440,000.

9. Extraordinary item:

The extraordinary item of $18,378 represents a loss from the sale of marketable securities net of $7,000 income tax reductions. These securities were part of the assets of a subsidiary company acquired in 1973.

10. Earnings per share:

Earnings per share figures were calculated using the weighted daily average of shares outstanding during the respective year. Average number of shares outstanding during 1974 was 740,348 (1973 — 740,292). No dilution in earnings per share would result from the exercise of employee stock options.

11. Working capital provided from operations:

	1975	1974
Income before extraordinary item	$ 319,016	$ 598,191
Add items not involving a current outlay of working capital:		
Depreciation and amortization	623,561	343,306
Deferred income taxes	79,495	170,000
	703,056	513,306
	$1,022,072	**$1,111,497**

12. Changes in components of working capital:

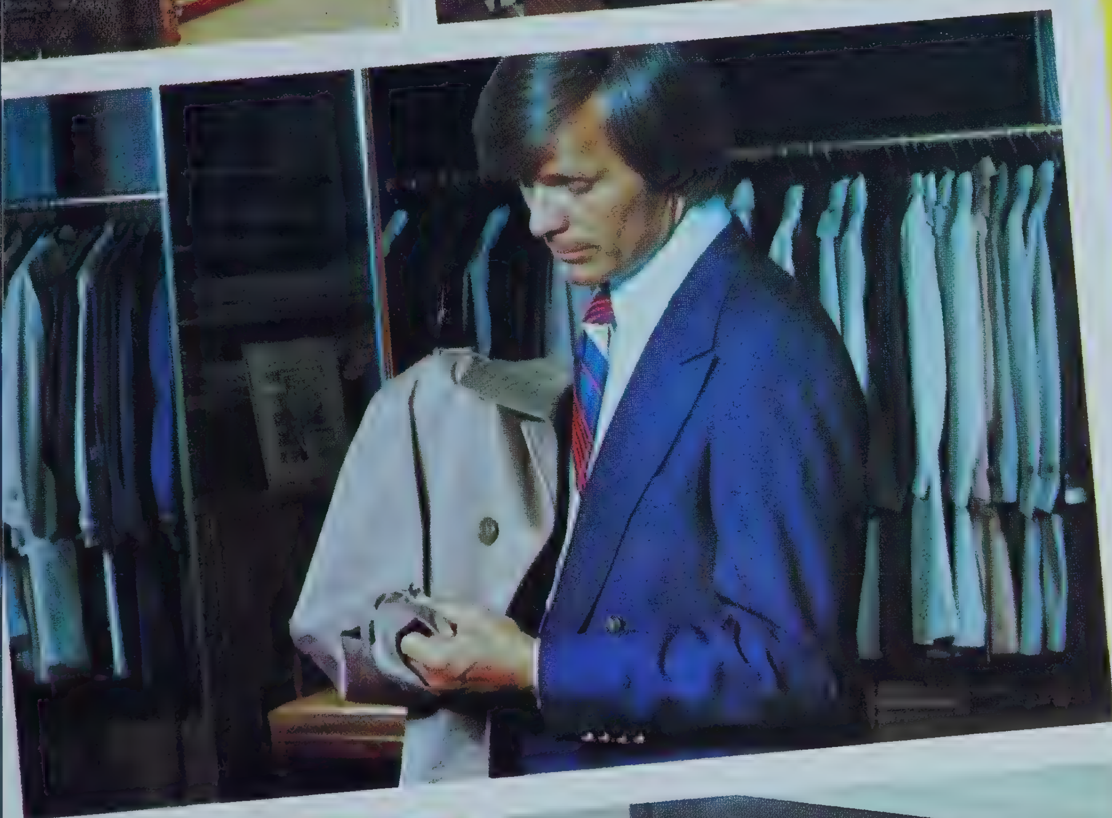
	1975	1974
Increase (decrease) in current assets:		
Cash	$(128,607)	$ 170,217
Accounts receivable	217,248	279,294
Inventory	580,857	2,533,942
Prepaid expenses and sundry assets	59,695	86,805
Marketable securities	(180,000)	180,000
	549,193	3,250,258
Increase (decrease) in current liabilities:		
Bank indebtedness	—	610,501
Accounts payable and accrued liabilities	1,077,940	2,458,913
Income taxes	(12,926)	(114,850)
Current portion of long-term debt	(246,852)	605,166
	818,162	3,559,730
Decrease in working capital	**$ 268,969**	**$ 309,472**

OPERATIONS

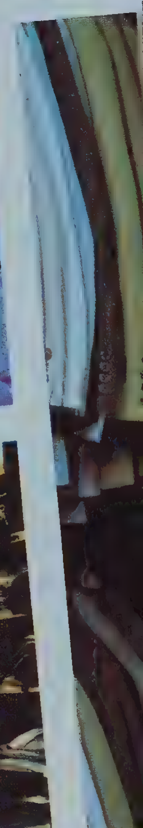
New Store Openings

During the past fiscal year our company opened five modern Elks stores in major shopping centres in Brantford, Newmarket, St. Catharines, Woodstock and Richmond Hill, Ontario. In Quebec, we opened an "Elks Pour Hommes" store in Levis, a Joe Feller store in Place Ville Marie, and a Joe Feller and a Dapper Dan store in Duvernay. Our first Elks Maritime Province location was opened in Moncton, New Brunswick in August.

Subsequent to year-end, two additional Elks stores were opened in Welland and Peterborough, and two Dapper Dan stores were opened in Place Versailles and




HAMPTONS



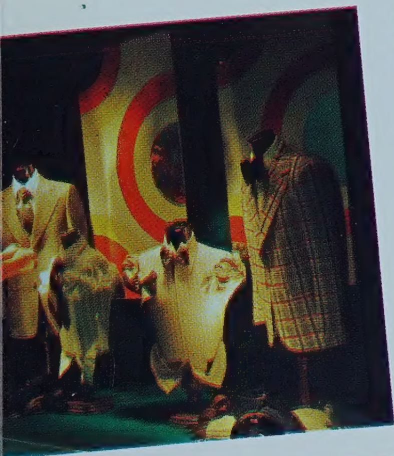
Place Le Carrefour Laval in Quebec. The latter two shopping centres are established and proven successful.

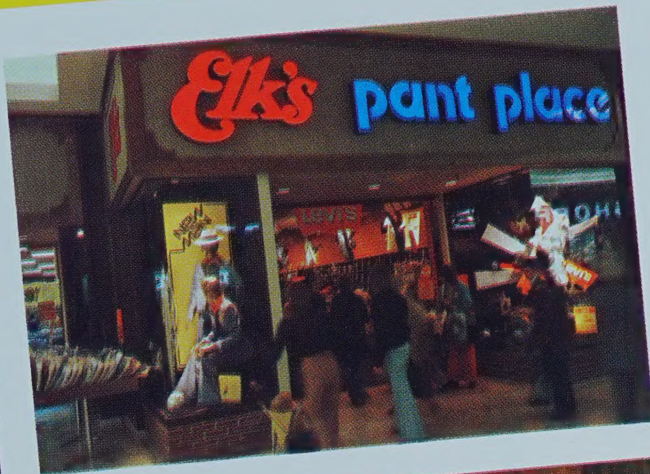
Four locations which did not meet our modern merchandising standards have been closed down since we last reported to you.

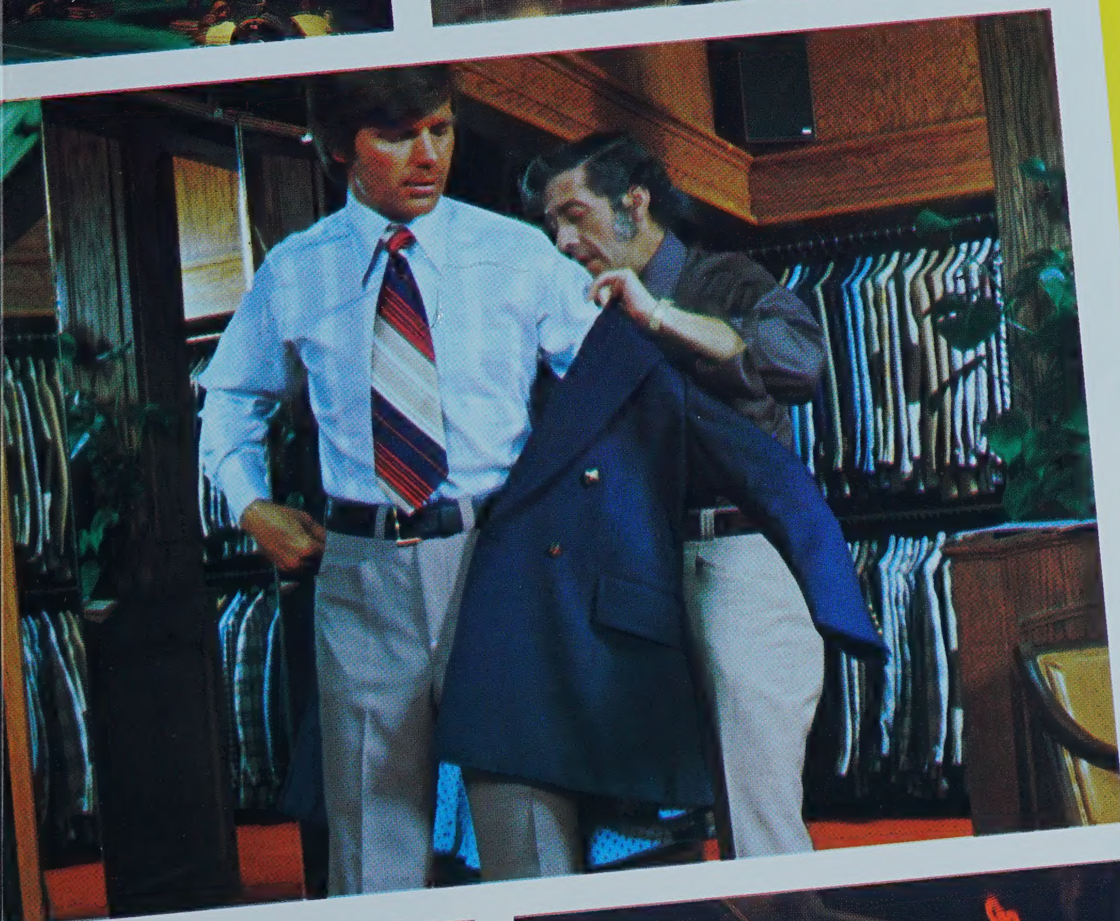
Currently the Elks Group of companies include 49 Elks stores, 9 Joe Feller stores, 5 Dapper Dan stores, 3 Hampton stores and 2 Elks Warehouse outlets, for a total of 68 locations.

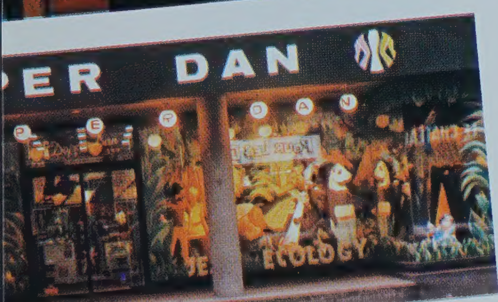
Merchandising

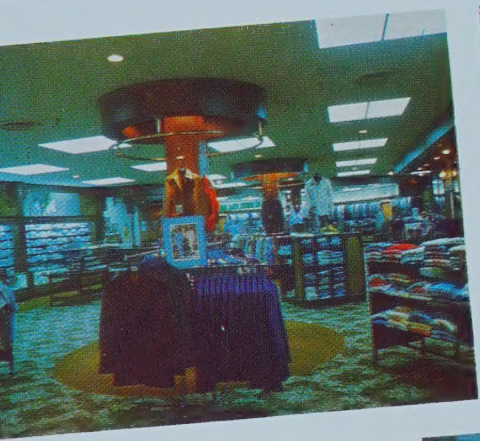
Major emphasis is now being directed towards new and effective merchandising techniques. Where necessary older stores are being updated to maintain efficiencies. Male customers are becoming increasingly style conscious, and we are making every effort to provide them with the broadest possible selection and depth of inventory. Our fully integrated display department maintains windows and store interiors in keeping with the latest fashion trends.

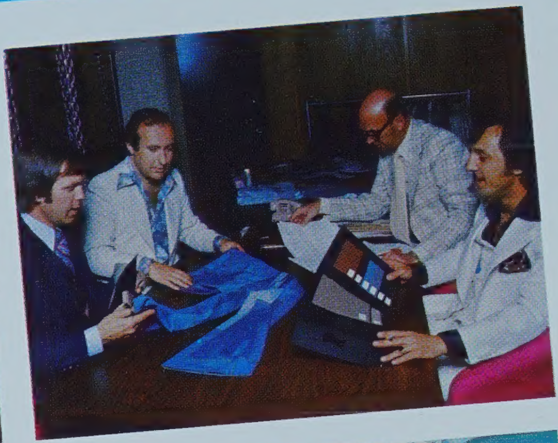



Elk's
pant place




DAN
ECOLOGY





Acquascutum

In March of this year, the prestigious Aquascutum of England reached an agreement with us to open Aquascutum Shops within our stores. Starting this fall, the three Hampton stores, the Ottawa Joe Feller stores and the Elks store in Fairview Mall will have these "shops-within-shops".

The "shops" will carry the full Aquascutum range of rainwear, topcoats, suits, blazers, slacks, sweaters, dress-shirts, neckwear and belts. Most of the merchandise, with the exception of the rainwear, is being imported directly from England.

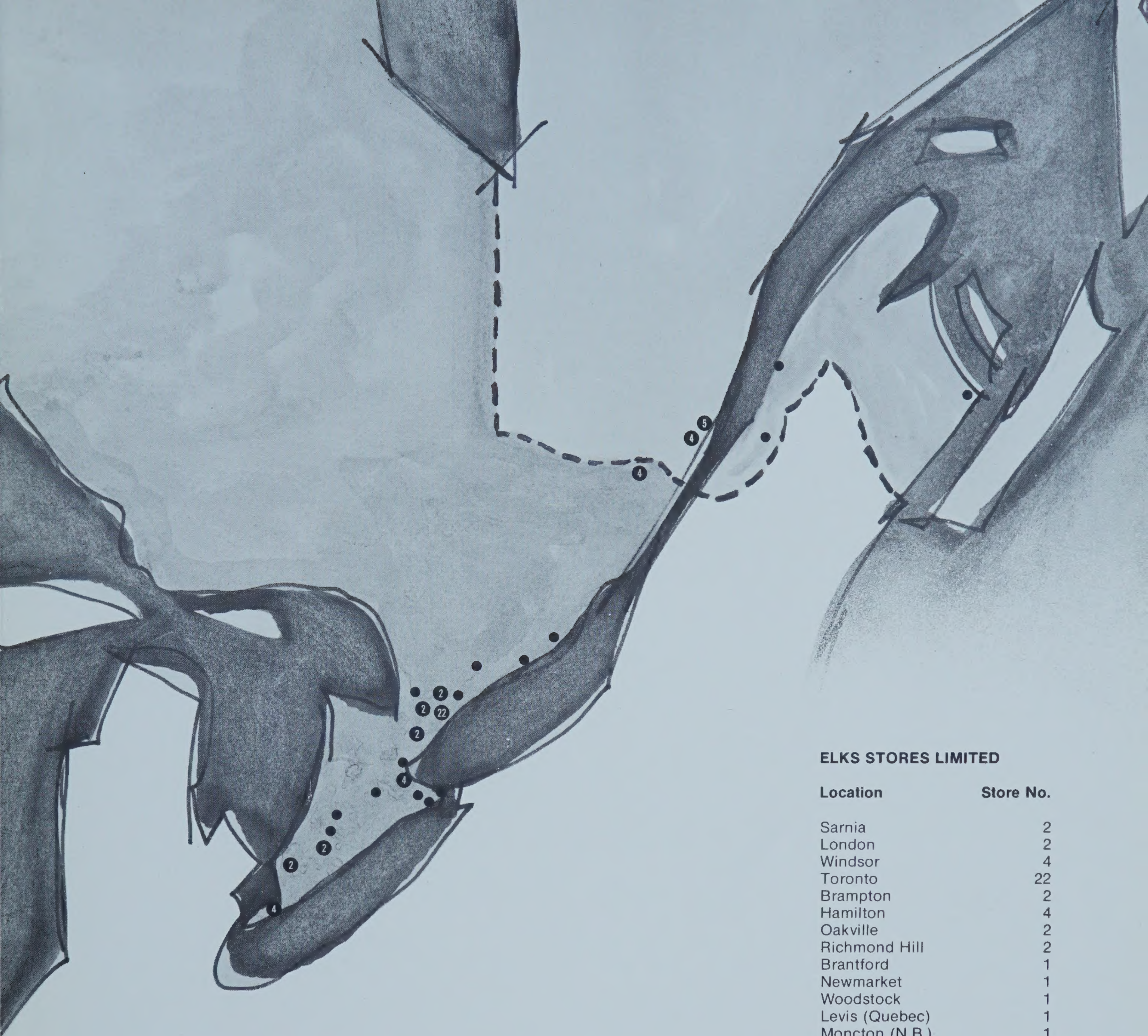
Zoo Sight

A photo-art exhibition commissioned by the Art Gallery of Ontario and sponsored by our company had a very successful opening at the Gallery in Toronto on June 13. Called "Zoo Sight" this exhibition leaves the Gallery on July 13 to travel across Ontario for showing in galleries, libraries and shopping malls in major centres.

The exhibit consists of over 150 pieces in colour by three well known photographers giving their impressions of how the artist views the animal. The photographs were taken at the new Metropolitan Toronto Zoo.

While it may seem strange for a retailer of men's clothing to sponsor an art exhibit, we view this venture as a gesture of goodwill to the communities involved in the show tour. We think of "Zoo Sight" as an extension of our basic merchandising philosophy of keeping our customers abreast of the times. Surely nothing could be more in keeping with the times than the arts, particularly this rapidly growing new form.

We are proud to help broaden its audience.



ELKS STORES LIMITED

Location	Store No.
Sarnia	2
London	2
Windsor	4
Toronto	22
Brampton	2
Hamilton	4
Oakville	2
Richmond Hill	2
Brantford	1
Newmarket	1
Woodstock	1
Levis (Quebec)	1
Moncton (N.B.)	1
St. Catherines	1
Kitchener	1
Peterborough	1
Guelph	1
Welland	1
Belleville	1
Kingston	1
Barrie	1
Chatham	1
Total	54

DAPPER DAN

Montreal	5

JOE FELLER LIMITED

Ottawa	4
Montreal	4
Sherbrooke	1
Total	9
Total Stores	68

ELKS STORES LIMITED — Head Office: 1198B Caledonia Road, Toronto, Ontario M6A 2W5